

INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE
ALCOHOL AND TOBACCO TAX DIVISION



WASHINGTON, D. C. 20224

Industry Circular No. 65-37

December 15, 1965

TRANSITIONAL PROCEDURES TO CONFORM WINERY OPERATIONS AND RECORDS
TO THE PROVISIONS OF PUBLIC LAW 89-44, EXCISE TAX REDUCTION ACT
OF 1965, EFFECTIVE JANUARY 1, 1966

Proprietors of bonded wine cellars
and others concerned:

Purpose. This circular is issued to inform you of the provisions of a revenue procedure, soon to be published in the Internal Revenue Bulletin, which will provide transitional procedures necessary to conform winery operations and records to the provisions of Public Law 89-44, effective January 1, 1966.

Substance of the Revenue Procedure. The revenue procedure will prescribe transitional procedures to be followed by proprietors of bonded wine cellars for terminating recordkeeping requirements under the wine reserve inventory, for establishing new records of amelioration; and procedures for completing the sweetening of wine removed from reserve inventory as of the close of business December 31, 1965. The revenue procedure will be substantially as follows:

(a) FORM 2054, RECORD OF FERMENTATION. As of the beginning of business January 1, 1966, each Wine Fermentation Record, Form 2054, shall be closed, and a new record of amelioration shall be established for each kind of fruit or berries, including grapes. The balance of wine, column (o), Form 2054, and the gallons of ameliorating credits, column (y), Form 2054, in each account, shall be transferred to the new record of amelioration; an appropriate explanatory notation, such as "Received from Form 2054," shall be made in the new record of amelioration. No particular form is prescribed for the record of amelioration, but regulations, 26 CFR Part 240, will require that such record reflect all quantities in gallons and contain all data necessary to enable internal revenue officers to readily ascertain that the limitations on amelioration have been complied with. Each separate record shall include data as follows:

- (1) The quantity of juice (exclusive of pulp) deposited in fermenters.
- (2) For juice from fruit or berries, other than grapes, the maximum quantity of pure dry sugar or liquid sugar authorized for adjustment of the total solids content.

- (3) The maximum quantity of ameliorating material to which the juice is entitled.
- (4) The quantity of ameliorating material used, including pure dry sugar or liquid sugar used for adjustment of total solids content.
- (5) The quantity of ameliorating material authorized but not yet used.

At the time the Wine Fermentation Record, Form 2054, is closed and the balance of wine included in such record is transferred to the new record of amelioration, the quantity of any such wine held in intermediate storage shall, if the fermentation thereof has been completed, be accurately determined and reported in column (c), Form 2056, Record of Still Wine, as wine produced; wine held in intermediate storage on December 31, 1965, shall, if the fermentation thereof has not been completed, become wine in fermenters, on January 1, 1966.

(b) FORM 2055, WINE RESERVE INVENTORY RECORD. As of the close of business December 31, 1965, each Wine Reserve Inventory Record, Form 2055, shall be closed by making a final entry in column (f) showing that all wine is, at that time, withdrawn from the reserve inventory. The quantity of wine so withdrawn shall be reported in column (g) of the appropriate Record of Still Wine, Form 2056, as wine received from reserve inventory. Also, the quantity of wine so withdrawn from reserve inventory, and the quantity of wine received from reserve inventory, shall be reported in the usual manner in Part I, Section A, of the Monthly Report of Wine Cellar Operations, Form 702, for December 1965.

(c) FORM 2056, RECORD OF STILL WINE. The quantity of wine received from reserve inventory shall be entered in column (g) of the appropriate Form 2056, as of the close of business December 31, 1965. Also, the quantity of completely fermented wine which was held in intermediate storage on December 31, 1965, shall, as of the beginning of business January 1, 1966, be entered in column (c), Form 2056, as wine produced by fermentation.

Commencing January 1, 1966, all sweetening of wine shall be recorded on Form 2056, in columns (d) and (o); and the kind of sweetening material used (if pure dry sugar or liquid sugar is used) shall be entered in column (b), except that where a particular lot of wine is sweetened with both sugar (dry or liquid) and juice (concentrated or unconcentrated), a separate entry therefor shall be made on Form 2056, and the quantity of sugar and type of juice used for sweetening shall be shown in column (b).

Commencing January 1, 1966, the amelioration of wine after completion of fermentation and removal from fermenters shall be recorded on Form 2056. For this purpose Form 2056 may be modified by changing the heading of an unused column in the right-hand portion of the form to read "Used for Amelioration" and by changing the heading of column (g) to read "Produced by Amelioration."

(d) MONTHLY REPORT OF WINE CELLAR OPERATIONS, FORM 702, AND INVENTORY OF WINE, FORM 702-C. The Monthly Report of Wine Cellar Operations, Form 702 (Rev. 3-65), for the month of December 1965, shall reflect the closeout of the reserve inventory; on the Inventory of Wine, Form 702-C, for December 31, 1965, all still wine shall be reported as "Still Wine in Permanent Storage."

The quantity of wine in intermediate storage as of December 31, 1965, shall be reported in the usual manner in Part VII of Form 702 (Rev. 3-65); thereafter, Part VII of Form 702 (Rev. 1-66) will be used to report the quantity of "Still Wine in Fermenters Last of Month."

(e) MARKINGS ON TANKS. Each tank which on December 31, 1965, is designated as "Intermediate Storage" or "Reserve Storage" shall, as of January 1, 1966, be designated to reflect its intended use, such as "Fermenting Tank" (or "Fermenter") or "Storage Tank."

(f) SWEETENING OF WINE WITHDRAWN FROM RESERVE INVENTORY AS OF DECEMBER 31, 1965. Wine withdrawn as of the close of business December 31, 1965, from reserve inventory may, if sweetening has not been completed, be sweetened on and after January 1, 1966, as provided in this section, but only if such wine is kept separate from other wine until sweetening operations are completed. Wine so withdrawn from reserve inventory may be sweetened with pure dry sugar or liquid sugar to the extent that:

.01 In the case of grape wine, the total solids content of the finished wine does not exceed (1) 17 percent by weight if the alcohol content is 14 percent or more by volume, or (2) 21 percent by weight if the alcohol content is less than 14 percent by volume; or

.02 In the case of fruit or berry wine, the total solids content of the finished wine does not exceed 21 percent by weight.

The use of liquid sugar under this section shall be limited so that the resultant volume will not exceed the volume which could result from the maximum authorized use of pure dry sugar only.

Inquiries. Inquiries regarding this circular should refer to its number and should be addressed to your Assistant Regional Commissioner, Alcohol and Tobacco Tax.



Harold A. Serr
Director, Alcohol and Tobacco Tax Division